June 2011

		Fund			S&P500	
	MTD	*YTD*	*Inception to date*	*MTD*	*YTD*	*Inception to date*
Dec 2005		**+14.01%**	**+14.01%**		**+4.78%**	**+4.78%**
Dec 2006		**+16.91%**	**+33.29%**		**+13.62%**	**+19.05%**
Dec 2007		**+4.06%**	**+38.70%**		**+3.53%**	**+23.25%**
Dec 2008		**-47.99%**	**-27.86%**		**-38.49%**	**-24.18%**
Dec 2009		**+42.74%**	**+2.97%**		**+23.45%**	**-6.40%**
Dec 2010		**+24.94%**	**+28.65%**		**+12.78%**	**+5.57%**
Jan 2011	**+1.84%**	**+1.84%**	**+31.02%**	**+2.26%**	**+2.26%**	**+7.96%**
Feb 2011	**+3.93%**	**+5.85%**	**+36.17%**	**+3.20%**	**+5.53%**	**+11.41%**
Mar 2011	**+6.77%**	**+13.01%**	**+45.38%**	**-0.10%**	**+5.42%**	**+11.29%**
Apr 2011	**+1.11%**	**+14.26%**	**+46.99%**	**+2.85%**	**+8.43%**	**+14.46%**
May 2011	**-1.47%**	**+12.58%**	**+44.83%**	**-1.35%**	**+6.96%**	**+12.92%**
June 2011	**+1.66%**	**+14.44%**	**+47.23%**	**-2.81%**	**+3.96%**	**+9.74%**

In June the Fund was up 1.66% to a new high for the year while the S&P500 was down 2.81%. Small cap indices were worse, with the Russell 2000 and the S&P600 both down more than 3% and both retreating into loss for the year to date during June. While your fund manager thinks this is absolutely marvellous, I also understand why all investors might not be throwing their clothes in the air, as the great recovery is protracted and nervous and the Fund is still below its high of October 2007. At 1307, the S&P500 is still below where it was in late 1999, 17% below the 2007 high and is not even double the generational low of March 2009. These are dire statistics which equate with the worst investing experience people have endured in a lifetime. The lack of a double is particularly poor as the 2009 low, along with July 1932 and December 1974, are the three all-time stand-outs.

We've been pulling away from the indices since the 2009 low so we must have got the recovery theme right. I looked at our portfolio of 93 stocks to examine what drove the Fund up last month. Once again fear caused small stocks to be dumped along with any other perceived risky asset class such as commodities and emerging markets. Amazingly, the reason, Greece, was the same as in June 2010. We had many new highs but the common thread is obscure. For instance, Mocon helped and it has no debt, as did Trimas, which has lots. Handy and Harman helped, which is on a very low multiple of price to sales and price earnings, as did Green Mountain which is on a very high one.

Although it does help, in this latter case, to have the hottest stock in the market as our largest position, it is fair to say we had at least 30 small stocks moving nicely upward against the trend.

The thread that is pushing this Fund is its uninvolvement with the reasons for the downturn. We are benefitting by ignoring financials, and focusing on sectors which are least affected by the general malaise. We all try to find a paradigm for a place in history to compare with and for me this best fits the period 1975 – 80, although I am prejudiced because I remember it. Then, as now, there was a large confiscation of wealth from the system which came on top of high spending on military adventure. By analogy we would now be in March 1977, four or five years past the previous peak and a couple of years past the low. We look forward to the October massacres of 1978 and 1979 and the Hunt brothers' silver crash of March 1980 nearly taking down Wall Street's finest before the final recession low some five years away in the summer of 1982. Nervousness and volatility continued until political change created a new investable paradigm of disinflation.

Today, however, personal income distribution is totally different. Labour is squeezed and capital does well. Last week a UK study of the hollowing out of middle incomes showed, for example, fork lift truck drivers earn less in real terms today than in our year, 1977. So warehouse automators are profitable and consumer spending is stuck. Return on equity is up in industries away from the consumer and an investable theme is apparent. By overweighting companies which are not getting squeezed, we are getting through.

Risk Warnings and other important information

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